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OUTLOOK

December 1989

A Monthly Forecast for the Economy and Real Estate

FORECAST SUMMARY

- The Department of Commerce released its first revision to third quarter real GNP growth, declaring that the economy advanced at an annual rate of 2.7 percent, a shade faster than its initial estimate of 2.5 percent. The upshot is that demand appears to have been stronger, while worrisome levels of inventory building were less alarming than originally thought.
- The Commerce Department reported that the index of leading economic indicators, slipped 0.4% in October, following two months of increases. To date in 1989, the index has fallen five times, increased four, and remained unchanged once.
- Housing starts activity rebounded in October to an annual rate of 1.42 million units, 12.0 percent faster than the September pace of 1.268 million units, but 7.3 percent below the October 1988 annual rate of 1.532 million units. Single-family housing starts moved up 6.9 percent to an annual rate of 1.027 million units, but were 9.6 percent below their October 1988 pace of 1.136 million units. Starts of multi-family units were also up strongly in October.
- October sales of existing single-family homes reacted positively to lower interest rates, remaining unchanged from their healthy September annual rate of 3.52 million homes. The pace of existing home sales was 4.3 percent below the October 1988 annual rate of 3.68 million units.
- Despite the healthy pace of existing single-family home sales, the median price of an existing single-family home slipped $2,200 to $92,100 in October, a decline of 2.3%. The median price for new single-family homes was up 5.3 percent in October to $127,900, and had risen 13.3 percent from its October 1988 median price of $112,900.

IN THIS ISSUE

- Economic Outlook [illegible] by John A. Tuccillo
- Outlook for [illegible]
- Housing [illegible] by John Tuccillo

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VALEDICTORY FOR THE DECADE
Economic Commentary

If you believe in forever,
Then life is just a one night stand.
If there's a rock n'roll heaven,
They're sure to have a hell of a band.

by
John A. Tuccillo
Chief Economist and
Senior Vice President
Real Estate Finance

Yes, but decades pass and it's only human to mark their passage with some retrospection, a process in which economists achieve 50 percent accuracy. In a few weeks, we move into a new decade (OK, don't quibble--I know that the Nineties don't really start until January 1, 1991, but see how many people invite you to their turn of the century party on December 31, 2000!). What did the Eighties represent? What did we accomplish? What lessons do we take with us toward the third millennium?

It was a decade that came in with the bang of Mt. St. Helens and went out with the twin scourges of Hugo and the quake. We learned that our friends at the beginning of the Eighties, the Japanese, may not be our friends by the end, but that old enemies are no longer as adversarial, as the Wall came tumbling down. Chernobyl and the Exxon Valdez showed the real costs of progress; our discards came back to haunt us, both as physical trash choking the environment and the human beings trapped by drug dependency and illiteracy.

We also learned that while democracy is, in the words of Winston Churchill, "the worst form of government, except for all the rest", it is the most difficult to sustain. Our elections became financial and media extravaganzas, and produced Congresses that have become increasingly paralyzed simply trying to produce an annual budget. That the Eighties were dominated by Ronald Reagan is as much a reflection of the changing ground rules of our political system, as it is a barometer of the needs of the country.

In economic terms, the decade was a resounding success. The nation is moving into the eighth consecutive year of growth, and even our two largest failures, the collapse of the thrifts and the stock market crash, appear to have had little lasting impact on either the housing finance system or the economy at large. Americans simply brushed aside the bad news in their rush to follow the advice of Barrett Stong, "The best things in life are free, but you can give them to the birds and bees. I need money, that's what I want."

Let's look at some of the major economic lessons of the Eighties:

Capitalism is a powerful force. Is there any doubt that the wave of freedom sweeping over the Communist world from China to East Germany stems from the powerful example of the prosperity achieved in the U.S., Western Europe and Japan? More to the point (and perhaps difficult to stomach), drug trafficking would not be nearly as successful and as hard to eliminate as it is were it not organized as a capitalist enterprise. In 1981, Reaganomics brought us back to the principles on which this economy was founded, and unprecedented growth resulted. That example has been taken to heart by many others in many ways.

Short-run wisdom and long-run wisdom don't always coincide. The free love of the Seventies turned out not to be free after all, as compelling as was its case. Also in the Seventies, what looked like a good idea--using the flood of young baby-boom workers to produce goods, rather than renewing obsolete capital--placed us in a dramatically inferior economic position to Japan and Germany. On the brighter side, the recession of 1981-82 engineered by the Volcker Fed seemed awful at the time, yet successfully squeezed inflation out of the economy and set the stage for the strong growth during the rest of the decade.

What goes up must come down. Not too long ago, we viewed the Communist Bloc as a monolithic superpower. And in 1980, Dallas and Houston were the places to be, and interest rates and oil prices were skyrocketing. Forecasts made at that time by extrapolating trends were dead wrong. And while it's true that economists have predicted eight of the last two recessions, it's human nature to assume that what happened yesterday will happen forever. Ain't so, and during the Eighties we learned that good markets turn sour, and bad markets improve. Think about that the next time you're tempted to worry about the Japanese.

Markets work. The most striking thing about the thrift debacle has not been its size or its cost or the numbers of institutions affected. Rather, it's that there has been no noticeable disruption of the housing finance system. The reason here is that the financial market found ways around the regulations that bound mortgage transactions. The upshot was the creation of an alternative system that took up the slack generated by the loss of the thrifts.

So those were the Eighties. The Nineties will bring their own triumphs and disasters, and we'll learn more lessons in the inexhaustible complexity of human existence. But can the end of the century really be so near? Has Saturday Night Live really been on for fifteen years? Is Mick really forty-six?

Outlook for the Economy and Real Estate

THE ECONOMIC OUTLOOK

The Department of Commerce released its first revision to third quarter real GNP growth, declaring that the economy advanced at an annual rate of 2.7 percent, a shade faster than its initial estimate of 2.5 percent. However, the composition of the new growth estimate changed substantially with the revision. Essentially, final sales in the economy (broadly defined as total demand less change in inventories) moved up by a full percentage point, and inventory change moved down by almost as much. The upshot is that demand appears to have been stronger, while worrisome levels of inventory building were less alarming than originally thought. However, the after effects of Hugo are still swirling amidst these revisions. By one measure, the net increase in the real GNP estimate can be explained by insurance payments made by foreign companies in the wake of Hugo. The statistical minutiae aside, the economy still seems on course for the vaunted "soft landing," although recent indicators suggest the approach might get a bit bumpy.

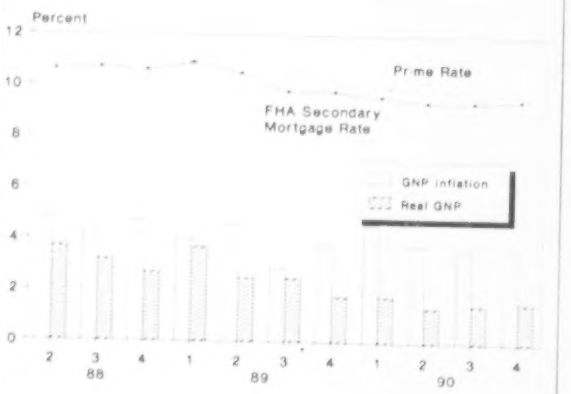
Outlook Mixed, Leading Indicators Say

The Commerce Department reported that its chief forecasting tool, the index of leading economic indicators, slipped 0.4% in October, following two months of increases. The index is popular because it is a composite of 11 indicators of economic activity which were selected to predict activity six to nine months in the future. It is believed that three consecutive monthly declines indicate a recession is probable. To date in 1989, the index has fallen five times, increased four, and remained unchanged once. In October, the index was buoyed by fewer unemployment claims, increases in plant and equipment orders, and a rise in building permits. The six components contributing to the October decline were all related to manufacturing: a shorter average workweek, slower orders for consumer goods, faster delivery times, less of a backlog for durable goods, higher material prices, and sagging consumer expectations. Any one month's report on the leading indicators should always be evaluated carefully, but other data confirms that the manufacturing sector has weakened significantly in recent months.

Sluggish Manufacturing Sector

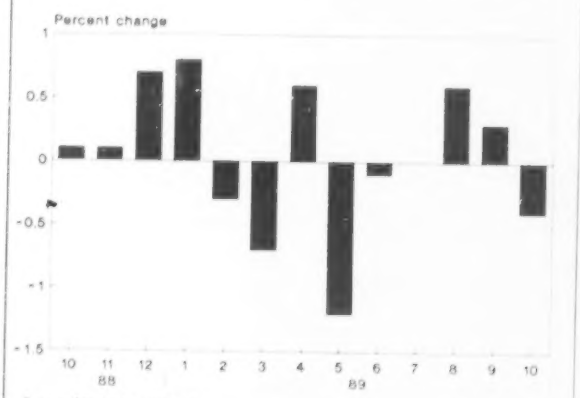
More concrete evidence of a slowdown in manufacturing has appeared with striking regularity in the monthly survey of purchasing agents by the National Association of Purchasing Managers. The November report marked the seventh consecutive month for which the index fell below a reading of 50. Generally, readings below 50 indicate that the manufacturing sector is extremely soft. Important trends in a few components of this composite index included the fifth consecutive monthly decline in factory production, the tenth consecutive monthly drop in manufacturing employment, and a decline in new orders for manufactured goods. The industrial sector has been going through a period of adjustment brought on by both weaker domestic demand and recently sluggish export growth. On a positive note, this slack demand has eased pressures for higher prices in some industries, and this may ultimately lead the Federal Reserve to lower interest rates.

GRAPH 1: THE ECONOMIC OUTLOOK



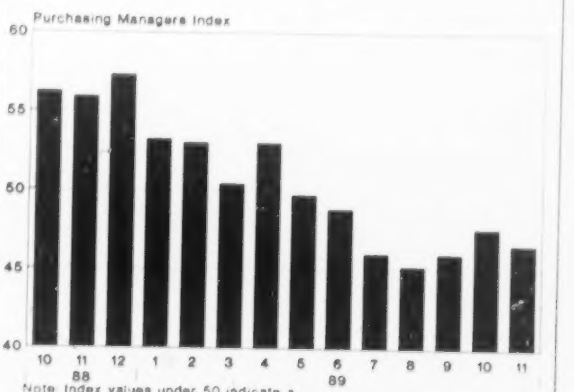
Source: Bureau of Economic Analysis; E. NAR estimates

GRAPH 2: LEADING INDICATORS WEAKEN



Source: Dept. of Commerce

GRAPH 3:FACTORIES SLOW, PURCHASERS SAY



Note: Index values under 50 indicate a weakening economy.
Source: Natl. Assn. Purchasing Managers

Will the Consumer Be Back in Time for Xmas?

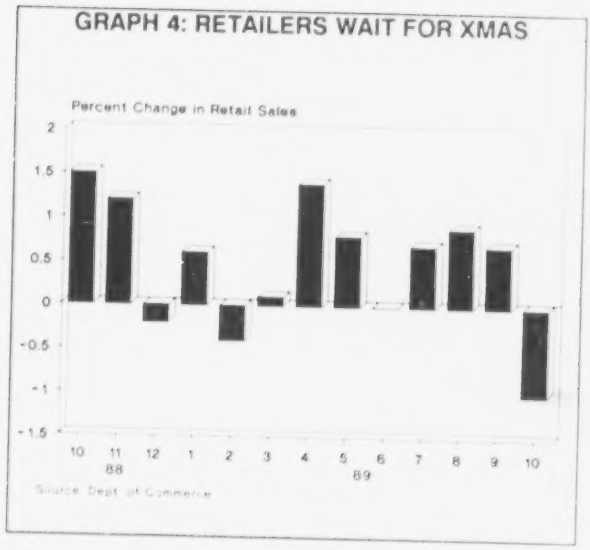
With manufacturing enduring a slowdown, the indomitable spirit of the American consumer has again been looked to for help in propping up economic growth. In fact, much of the 2.7% advance in third quarter real GNP growth was due to consumer spending. On the surface, it seems that consumers are still up to the task: personal income growth surged 0.9% in October, the fastest pace since March, and just in time for the Christmas buying season. But a host of special factors were behind the income spurt: bonus checks for auto execs, and the earthquake, to name two. But while it's still too early to tell, there are signs consumers are winded from their stint at the forefront of economic growth. October retail sales were down 1.0 percent from September, but up 4.6 percent from October 1988. The October decline was the largest since January 1987, but both then and now the retreat was due to sharp drops in auto sales. Excluding auto sales, October retail sales were up 0.2 percent. So, a late Christmas season comeback should not be ruled out. Retailers did report that sales picked up after Thanksgiving, so Christmas might just come a little late this year: particularly with five shopping weekends between the holidays this year.

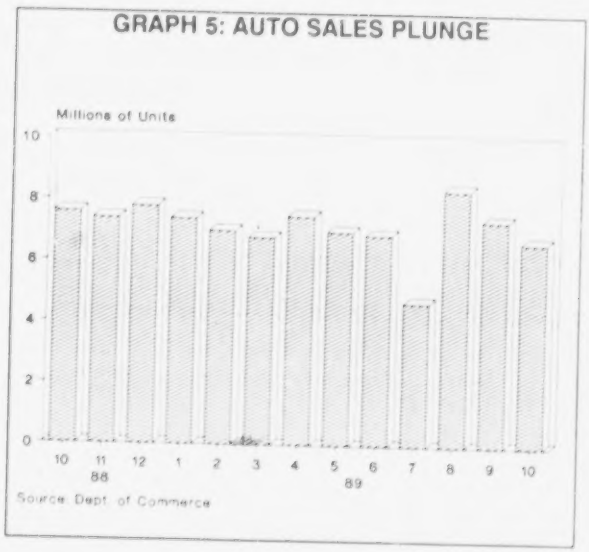
Slower Auto Sales Are Just a Symptom

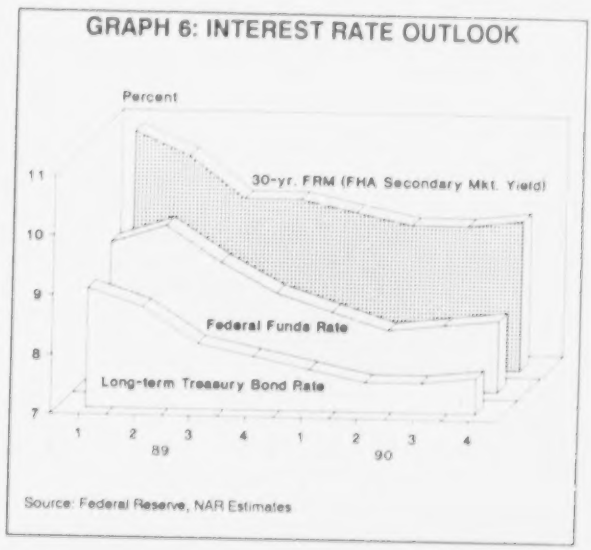
Flat auto sales are muffling consumer spending as well. October was the first month in which Americans curbed their personal spending in more than a year, and sagging car sales were almost entirely to blame for the 0.2% drop. There was a time not too long ago that an extended stay in the Detroit doldrums meant a recession was likely for the entire economy. But in 1989, auto production at partially or wholly-owned Japanese plants in the U.S. will surpass one million units. These plants operate at lower costs than older ones run by the Big Three U.S. car companies. With these margins in their favor, Japanese auto makers have enjoyed an 8.2% rise in sales from January to October 1989, and in the process, have grabbed a 25.4% share of the market, up almost three percentage points. Sales at the Big Three have plunged 6.2%, trimming their combined share by 1.6%.

Slow Growth, Modest Inflation...Lower Rates?

As evidence of the economy's slower growth trend mounts, expectations grow that the Federal Reserve will soon ease its monetary policy and thereby allow interest rates to drift down again. The Fed is widely believed to be a bit more concerned with keeping the economy out of a recession, than it is worried about an acceleration in the rate of inflation. In fact, the Fed's next move to ease credit is so widely anticipated that many financial market wizards claimed to see ghosts of looser credit during the short Thanksgiving week. The markets reacted so strongly to these sightings that the Fed had to enter the markets on the following Monday to realign the federal funds rate to confirm that it had only been providing more credit to meet the needs of the busy shopping weekend. Still, the Fed is expected to loosen credit before the year is out. This easing of credit might be precipitated by a weak November employment report, which is due to be released on Friday, December 8.







HOUSING STARTS

(Seasonally Adjusted Annual Rates, in Thousands)

NATIONAL DATA

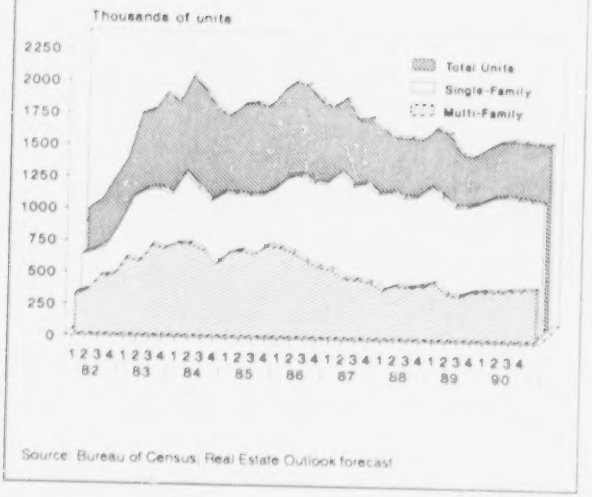
	Total	S-F	2-4	5 and up
Oct 1989	1420	1027	73	320
Sep 1989	1268	961	59	248
Aug 1989	1329	990	56	283
Jul 1989	1420	1026	57	337
Jun 1989	1406	972	55	379
Oct 1988	1532	1136	63	333
Oct 1989 Changes From (%):				
Sep 1989	12.0	6.9	23.7	29.0
Oct 1988	-7.3	-9.6	15.9	-3.9

REGIONAL DATA

	Northeast	Midwest	South	West
Oct 1989	176	289	562	393
Sep 1989	166	248	480	374
Aug 1989	140	236	563	390
Jul 1989	189	274	531	426
Jun 1989	168	242	552	444
Oct 1988	198	273	582	479
Oct 1989 Changes From (%):				
Sep 1989	6.0	16.5	17.1	5.1
Oct 1988	-11.1	5.9	-3.4	-18.0

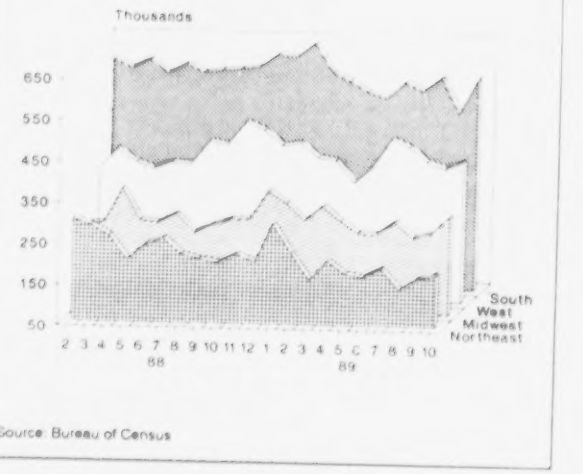
Source: Bureau of the Census; Construction Reports, Series C20

GRAPH 7: HOUSING STARTS



Source: Bureau of Census; Real Estate Outlook forecast

GRAPH 8: HOUSING STARTS BY REGION



Source: Bureau of Census

Privately owned housing starts activity rebounded in October to an annual rate of 1.42 million units, 12.0 percent faster than the September pace of 1.268 million units, but 7.3 percent below the October 1988 annual rate of 1.532 million units. Single-family housing starts moved up 6.9 percent to an annual rate of 1.027 million units, but were 9.6 percent below their October 1988 pace of 1.136 million units. Starts of multi-family units were also up strongly in October. The rebound in activity was directly related to the recent drop in interest rates, and does not indicate a reversal of the slowdown in the general economy. Rather, the latest starts figures simply moved starts activity back up to the pace that had prevailed in July before plunging 6.4% in August and 4.6% in September.

All four regions experienced an increase in the rate of housing starts activity during October, but only the Midwest saw starts surpass their October 1988 pace. In the Midwest, housing starts rose 16.5 % in October to an annual rate of 289 thousand homes, and were 5.9% higher than their October 1988 pace of 273 thousand units. In the Northeast, October housing starts were up 6.0% from September, but down 11.1% from a year ago. In the South, starts surged 17.1% in October, but were off 3.4 % from their October 1988 pace. In the West, housing starts rose 5.1% in October, but were down 18.0% from their October 1988 annual rate.

NEW HOME SALES

(Seasonally Adjusted Annual Rates, in Thousands)

NATIONAL DATA

Oct	1989	649	Mar	1989	555
Sep	1989	652	Feb	1989	621
Aug	1989	726	Jan	1989	700
Jul	1989	738	Dec	1988	669
Jun	1989	647	Nov	1988	650
May	1989	653	Oct	1988	718
Apr	1989	607			

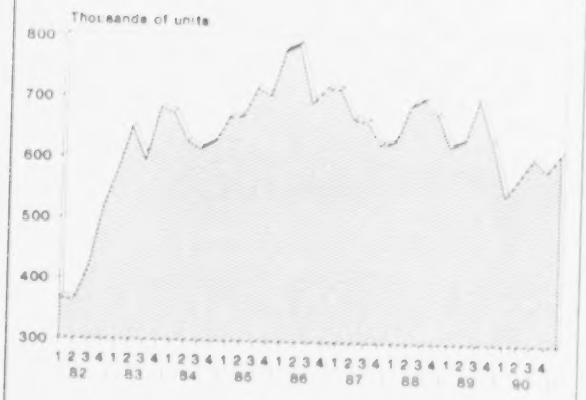
Oct 1989 Changes From:		Annual Totals:	
Sep 1989	-0.5	1987	671
Oct 1988	-9.6	1988	676

REGIONAL DATA

		Northeast	Midwest	South	West
Oct	1989	99	113	276	161
Sep	1989	67	109	261	214
Aug	1989	88	104	293	241
Jul	1989	99	127	282	229
Jun	1989	73	99	259	215
May	1989	89	99	271	195
Oct	1988	96	111	274	238
1988		102	97	276	202
1987		117	97	271	186
Oct 1989 Changes From:					
Sep	1989	47.8	3.7	5.7	-24.8
Oct	1988	3.1	1.8	0.7	-32.4

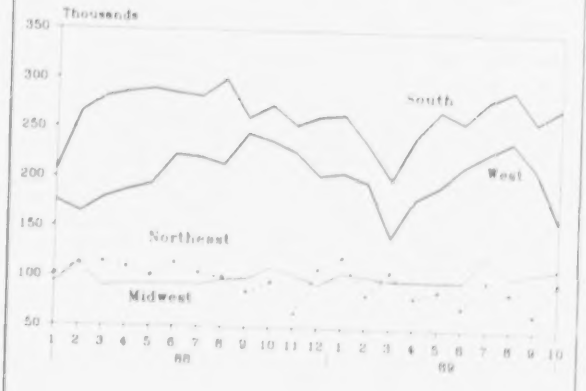
Source: Bureau of the Census; Construction Reports, Series C25

GRAPH 9: NEW HOME SALES



Source: Bureau of Census, Real Estate Outlook forecast

GRAPH 10: NEW HOME SALES BY REGION



Source: Bureau of Census

Sales of new single-family homes were virtually unchanged in October at an annual rate of 649 thousand units, or 0.5% below the September annual rate of 652 thousand units. New home sales figures can and do fluctuate wildly from month to month. In fact, September new home sales were initially reported last month to have fallen 14% from their August pace, but the Bureau of Census revised this figure to a smaller 10.2% decline. The November and December reports on new home sales may show a slight uptick in activity due to lower interest rates during the fall, which has helped boost housing starts activity. However, the large sampling errors encountered by the Bureau of Census make drawing any inferences from the monthly data a treacherous undertaking.

By region, there were some very wide swings in new home sales activity. In the Northeast, new home sales shot up 47.8% to an annual rate of 99 thousand homes, but were only 3.1% faster than the October 1988 rate. In the Midwest, new home sales moved up 3.7% in October to an annual rate of 113 thousand homes, and were 1.8% above the October 1988 annual rate. In the South, new homes sold at an annual rate of 276 thousand units, or 5.7% faster than the September rate, and were virtually unchanged from the October 1988 pace. In the West, the annual rate of new home sales plunged 24.8% in October to 161 thousand units, from 214 thousand units in September. The October 1989 sales pace was 32.4 percent slower than the October 1988 annual rate of 238 thousand units.

EXISTING SINGLE-FAMILY HOME SALES

(Seasonally Adjusted Annual Rates, in Thousands)

NATIONAL DATA

Oct	1989	3520	Mar	1989	3400
Sep	1989	3520	Feb	1989	3480
Aug	1989	3480	Jan	1989	3550
Jul	1989	3330	Dec	1988	3920
Jun	1989	3360	Nov	1988	3710
May	1989	3210	Oct	1988	3680
Apr	1989	3400			

Oct 1989 Changes From (%):		Annual Totals:	
Sep 1989	0.0	1988	3594
Oct 1988	-4.3	1987	3526

REGIONAL DATA

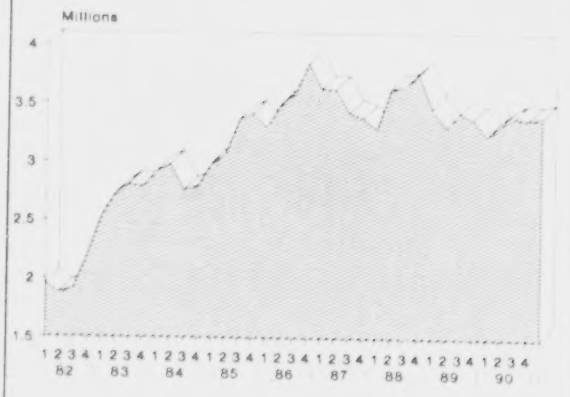
		Northeast	Midwest	South	West
Oct	1989	580	980	1340	610
Sep	1989	590	990	1340	590
Aug	1989	590	980	1350	550
Jul	1989	550	910	1300	570
Jun	1989	510	960	1280	600
May	1989	610	810	1230	580
Oct	1988	640	940	1410	690
1988		673	929	1350	642
1987		685	959	1282	600

Oct 1989 Changes From (%):

Sep	1989	-1.7	-1.0	0.0	3.4
Oct	1988	-9.4	4.3	-5.0	-11.6

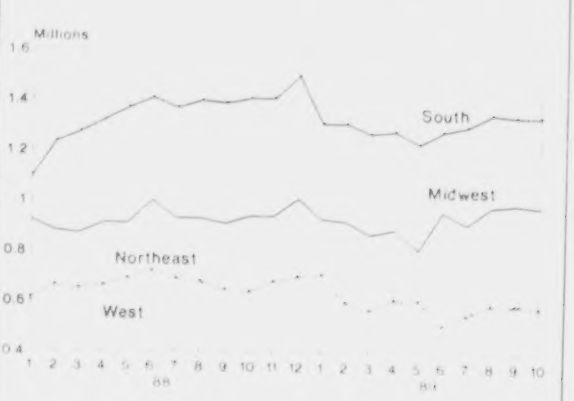
Source: NATIONAL ASSOCIATION OF REALTORS® Economics and Research Division

GRAPH 11: EXISTING HOME SALES



Source: NAR Economics & Research, Real Estate Outlook forecast

GRAPH 12: EXISTING HOME SALES BY REGION



Source: NAR Economics & Research

October sales of existing single-family homes reacted positively to lower interest rates, remaining unchanged from their healthy September annual rate of 3.52 million homes. The pace of existing home sales was 4.3 percent below the October 1988 annual rate of 3.68 million units. However, put in the context of sales activity during 1989, the October annual rate was the highest since January's pace of 3.55 million units. With fixed rate mortgages available at rates below 10 percent, buyers previously priced out of the market apparently have reconsidered their situation and jumped back into the market. However, buyers in high cost areas are still finding it difficult to purchase homes, despite the lower rates.

In the Northeast, the annual rate of existing home sales fell 1.7% in October to 580 thousand homes, and was 9.4% below the October 1988 annual sales pace. In the Midwest, sales slipped by only 1.0% to an annual rate of 980 thousand homes during October, and were 4.3% ahead of the October 1988 sales pace. In the South, sales of existing homes were unchanged in October at an annual rate of 1.34 million homes, but fell 5.0 percent below the October 1988 annual rate of 1.41 million units. In the West, October sales activity was up 3.4 percent to an annual rate of 610 thousand existing homes, but remained 11.6 percent below its October 1988 sales pace of 690 thousand homes.

SINGLE-FAMILY HOME PRICES

(In Dollars)

NATIONAL DATA

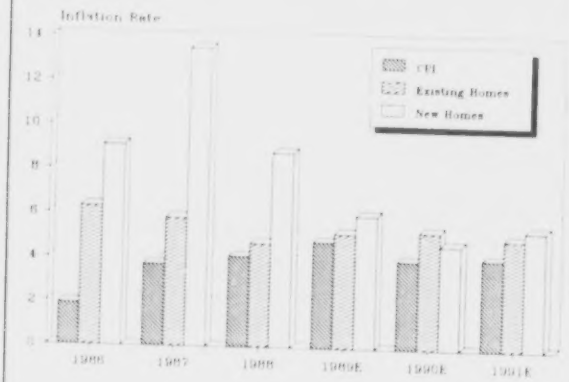
		Median		Average	
		Existing	New	Existing	New
Oct	1989	92,100	127,900	116,500	151,900
Sep	1989	94,300	121,500	118,400	151,900
Aug	1989	94,800	122,700	120,800	159,000
Jul	1989	96,700	116,000	122,100	140,300
Jun	1989	93,400	122,800	118,800	153,600
Oct	1988	88,900	112,900	112,300	137,300
1988		89,300	112,500	112,800	138,300
1987		85,600	104,500	106,300	127,200
Oct	1989				
Changes From (%):					
Sep	1989	-2.3	5.3	-1.6	0.0
Oct	1988	3.6	13.3	3.7	10.6

REGIONAL DATA

		Northeast	Midwest	South	West
Oct	1989	143,300	70,900	83,400	142,200
Sep	1989	145,700	72,200	84,400	147,600
Aug	1989	149,000	71,900	86,100	147,500
Jul	1989	147,100	73,400	87,200	146,500
Jun	1989	149,900	72,000	85,000	134,500
Oct	1988	144,400	68,000	80,500	130,000
1988		143,000	68,400	82,200	124,900
1987		133,300	66,000	80,400	113,200
Oct	1989				
Changes From (%):					
Sep	1989	-1.6	-1.8	-1.2	-3.7
Oct	1988	-0.8	4.3	3.6	9.4

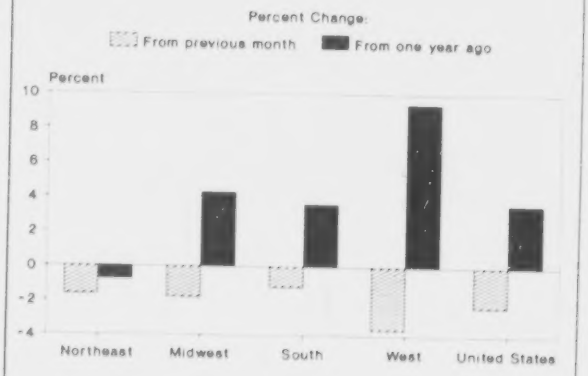
Source: NATIONAL ASSOCIATION OF REALTORS®
Economics and Research Division

GRAPH 13: HOME PRICES



Source: Bureau of Census, E Real Estate Outlook forecast

GRAPH 14: HOME PRICES BY REGION



Source: NAR Economics & Research, Real Estate Outlook forecast

Despite the healthy pace of existing single-family home sales, the median price of an existing single-family home slipped $2,200 to $92,100, in October, a decline of 2.3%. The drop in interest rates that encouraged the healthy sales activity allowed buyers who had previously been priced out of the housing market to make purchases. This, in turn, contributed to a larger volume of home sales in the moderate price range, as those previously priced out of the market are not likely to purchase homes in the upper brackets. The median price declined in all four regions during October, but remained above October 1988 levels in every region except the Northeast, where it was 0.8 percent below its October 1988 reading. The Midwest median price increased 4.3 percent since October 1988, the South median price was up 3.6 percent, and the West median price was up 9.4 percent.

The median price for new single-family homes was up 5.3 percent in October to $127,900, and had risen 13.3 percent from its October 1988 median price of $112,900. But as mentioned earlier, sampling errors affect the new home sales data, and these wide swings in new home sales prices are more than likely linked to them.

Sean A. Burns
Director of Forecasting
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HOUSEHOLD HOUSING EXPENDITURES

Effects of A Changing Population

Given the cyclical nature of housing, it is understandable why the demand for housing is often represented primarily as a function of current and anticipated inflation, interest rates, the supply of mortgage credit, etc. However the longer run demand for housing, often obscured by "shocks" to the economy, responds to the population's demographics, including its changing age structure and household composition. In "Increasing Singles and Aging 'Boomers': Impacts on Household Finances and Implications for Housing" (Real Estate Outlook, August 1989), we looked at the financial resources of households of various types. Moreover, we humbly speculated about the implications for household formation and housing demand if current trends in finances, savings and income continue into the future.

This article will look at another aspect of housing demand. How much of their financial resources are households of various ages and types spending for housing services? How will this impact future demand? Both this article and "Increasing Singles and Aging 'Boomers'", are excerpted from an upcoming NATIONAL ASSOCIATION OF REALTORS® staff study, Demographics in the U.S. -- The Segmenting of Housing Demand.

THE HOUSING "HAVES" AND "HAVE NOTS"

A well-documented growing inequality in the income distribution is being reflected in a growing gulf between the "haves" and "have nots" in the housing market. While growth in housing affluence among households toward the upper end of the distribution has been characterized as "quite remarkable", the declining share of income going to poor households has contributed to equally apparent housing problems, if not deprivation, for many.[1] Between 1981 and 1987, there was substantial growth in the number and percent of higher priced homes sold. Some 356,000 existing homes were sold for $120,000 or more in 1981 (14.7 percent of the total); an estimated 726,000 were sold for $150,000 or more in 1987 (26.6 percent of the total).[2] The number of new homes sold at these prices increased by 155 percent between 1981 and 1987; as a share of total new home sales the increase was from 15 percent to 26 percent.[3] Much of this reflects increased demand by affluent households for more amenities and more spacious, well-appointed homes.[4]

A few select characteristics of new homes indicate how striking the supply response has been. From 1984 to 1988, median new home size increased over 13 percent (from 1,605 sq. ft. to 1,815 sq. ft.); the proportion with more than two baths increased from 28 percent to 42 percent; new houses with four bedrooms or more increased from 18 percent to 26 percent; and the proportion with two- or more car garages rose from 55 percent to 66 percent.[5]

In sharp contrast to the affluence evidenced by increased sales of higher priced homes, housing deprivation has increased appreciably as well. Deprivation occurs not only for those households which are homeless but also for those poverty households which are deprived of other essentials because they must spend enormous income shares for housing. The housing cost burden to poverty households varies across household types. Housing costs constitute an excessive burden for more poverty renters than owners, and for more poverty households under age 65 than for the elderly. It is estimated, for example, that the typical renter household having an income below the poverty level spent 65 percent of its income on housing in 1985. This compares with 35 percent for elderly renters, 31 percent for black renters, and 27 percent for all renter households. On the other hand, the typical poverty household which owned its home in 1985 spent 47 percent of its income on housing. This compares with 19 percent spent by elderly owners, 21 percent by black owners, and 18 percent by all owner household.[6]

Whereas nearly 4 out of 5 (78.6 percent) of poor renters under age 65 and living alone pay more than 50 percent of their incomes for housing, only about one-half (50.8 percent) of their elderly cohorts do so. For married couples without children the situation is somewhat reversed; a substantially larger proportion of poor elderly renter couples pay more than 50 percent of their incomes for housing than is true for married renter households under age 65 (83.6 percent versus 73.6 percent). Available evidence from the 1985 American Housing Survey indicates that, while spending substantial portions of their incomes for housing, low-income households which rent consume relatively low levels of housing. For example, the typical renter units occupied by a poverty household in 1985 provided 379 square feet of floor space per person, about 83 percent of the median (458 square feet) for all occupied rental units.[10]

EVIDENCE FROM CONSUMER EXPENDITURES SURVEYS

The most reliable data currently available regarding household expenditures are collected by the Bureau of Labor Statistics in its periodic Consumer Expenditures Surveys (CES) and by the U.S. Department of Housing and Urban Developoment in its biennial American Housing Surveys (AHS). However, the Consumer Expenditure Survey is the only national survey that provides data both on household expenditures and on demographic characteristics of households. CES data gathered in 1973, 1981, 1985, 1986, and 1987 provide a useful perspective for assessing changes in household expenditure and consumption patterns during the 1970s and 1980s.[7]

Table 1 shows real income and expenditures both per household and per capita for selected CES periods. Differences in levels of and changes in household and per capita income/expenditures illustrates the influence of reduced average household size over the period.

Table 1
REAL HOUSEHOLD EXPENDITURES FOR SELECTED YEARS, 1973 - 1987
(1987 dollars)

Income/Expenditure	1973	1981	1985	1986	1987	% Change 1973-1987
Household Income	$27,244	$24,952	$26,528	$26,411	$27,326	0.3%
Household Expenditures	21,861	21,580	23,458	23,538	24,414	11.7
Shelter Expenditures (% of Income)	11.9%	14.1%	15.3%	15.6%	15.2%	3.3
Fuel & Utilities (% of Income)	3.6	6.3	6.6	6.5	6.1	2.5
Per Capita Income	$9,394	$9,241	$10,202	$10,017	$10,510	11.9
Per Capita Expenditures	7,425	7,891	8,936	8,773	9,390	26.5
Shelter Expenditures (per capita)	1,056	1,399	1,559	1,535	1,598	51.3
Fuel & Utilities Expenditures (per capita)	461	609	669	690	643	39.5

SOURCE: Marc E. Smyrl, Income and Expenditures of Selected Consumer Groups 1973-1985, CRS Report No. 88-318S (Washington, D.C.: Congressional Research Service, The Library of Congress, 1988), Tables I & II, pp. CRS-7 & CRS-9 based on Consumer Expenditure Surveys 1972-73, 1980-81, 1985; "Consumer Expenditure Survey Results from 1986," NEWS, U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C. (April 14, 1988), Table B, p. 3; and "Comprehensive Picture of Consumer Spending Released by Bureau of Labor Statistics," News, U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C. (July 6, 1989), Table B, p. 3.

Decline in household expenditures during the 1970s was not as great as the decline in income and, during the 1980s, expenditures increased more than did income. Hence, real expenditures per household were nearly 12 percent higher in 1987 than they were 14 years earlier, despite real incomes being virtually unchanged. Real expenditures for shelter by householdsincreased by 3.3 percent relative to income and for fuel and utilities by 2.5 percent. This does not necessarily mean, however, that households increased their consumption of housing goods and services; that is, an increased share of income could have been necessary to purchase the same amount of housing in the face of declining real incomes. However, as shown in Table 1, declining incomes account for only part of the increased share of income spent for housing, housing share rising when real income increased during the 1980s as well as when it declined during the 1970s.

The growth in per capita expenditures for shelter and fuel and utilities over the period is much more pronounced. Expenditures in both categories increased some 3 to 4 times as much over the 1973-1987 period as did total household expenditures.

What does this imply? First, the approximately 10 percent smaller typical household in 1987 consumed a substantially larger volume of housing goods and services (some 40 percent to 50 percent larger in per capita terms) than in 1973. Second, this apparently reflected increased preference for housing relative to other goods, services, or savings.

Table 2 shows financial characteristics of three selected groups of households in 1973 and 1985: young households, elderly households, and single-parent households. Because baby-boomers ranged in age from 9 to 27 in 1973 and from 21 to 39 in 1985, comparing characteristics of the typical young household aged 25 to 34 in those years should reflect changes attributable to coming of age of the baby-boom generation.

As with households age 25 to 34, the elderly comprised over one in five U.S. households in 1985, and their proportion is increasing; changes in their expenditure patterns between 1973 and 1985 may be instructive as to future patterns as well. Although single-parent families totaled only slightly over one in twenty U.S. households in 1985, they make up a rapidly growing proportion of the population thought to face special housing finance problems.

Consistent with alternative data sources, young households appear to have suffered a decline in real incomes (nearly 4 percent) between 1973 and 1985, although their per capita incomes increased nearly 14 percent. This apparent anomaly undoubtedly owes in large measure to a nearly 16 percent decrease in the average size of households with heads aged 25 to 34 during this period. At the same time, however, real expenditures for shelter and for fuel and utilities increased by some 44 percent in per capita terms, about the same as for all households. Indeed, average incomes and expenditures for young households differ little from the general population, either in terms of their 1985 levels or in changes occurring during the preceding 12-year period.

Elderly households experienced a larger increase in household income (11.4 percent) than did either of the other two groups discussed here.[8] But they, too, increased their housing expenditures far more than their incomes increased. Consistent with conventional wisdom, the elderly appear to have had much lower incomes in 1985 than did the population as a whole ($15,836 versus $25,127 household incomes, and $8,798 versus $9,664 per capita incomes).

The elderly also spent a much larger proportion of their 1985 incomes than did the general population (95 percent versus 88 percent), but this represented about an 8 percent increase from 1973 for both groups. Moreover, the elderly spent a substantially larger percent of their per capita incomes for shelter and for fuel and utilities in 1985 than in 1973 (24.8 percent versus 20.0 percent). Again, this mirrors the housing expenditure pattern for the general population in 1985 and 1973 (21.8 percent versus 16.1 percent).

Whereas single-parent households had incomes roughly comparable with those of elderly households in 1985, their income per capita was only about 60 percent as high and the rate of growth only about one-third as great as for the elderly. Single-parent households reported spending more than they earned, per household as well as per capita.[9]

Despite spending less for housing per capita than did the general population, young households, or the elderly, single-parent households spent a far larger percent of their incomes. Indeed, single-parent households spent an average of one-third of their per capita incomes for shelter, fuel, and utilities in 1985. This compares with 27 percent in 1973 and with about 22 percent for the general population in 1985.

CONCLUSION

Several conclusions seem worth noting from the income, expenditure, and housing consumption patterns observed from the Consumer Expenditures Surveys. First, from 1973 to the mid-1980s, all household groups substantially increased their inflation-adjusted expenditures for goods and services generally and for housing services in particular. Second, because of substantial decreases in household size (except for the elderly) during that period, per capita expenditures increased much more than did average household expenditures (again, except for the elderly).

Third, because growth in real incomes was so uneven, in fact decreasing for young households, increased real expenditures posed quite different relative burdens for disparate groups of households. Whereas the typical U.S. household increased its total expenditures as a percent of income from 80 percent to 88 percent between 1973 and 1985, the corresponding increase was from 79 to 86 percent for young households, from 87 percent to 96 percent for the elderly, and from 103 percent to 108 percent for single-parent families. Corresponding increases in household income spent for shelter, fuel, and utilities were from 15 percent to 22 percent for all households, but from 18 percent to 23 percent for young households and from 26 percent to 33 percent for single-parent households.

Fourth, young households' income and expenditure patterns seem to correspond closely with patterns for households generally. Whether this indicates that baby-boomers are emulating other households or vice versa is difficult to say. However, if the pattern continues as

Table 2

REAL INCOME AND EXPENDITURES BY HOUSEHOLD TYPE, 1973 and 1985
(in 1985 dollars)

Income/Expenditures	1985	$ Change 1973-85	% Change 1973-85
YOUNG HOUSEHOLDS[a]			
Household Income	$25,535	-$1,050	- 3.9%
Household Expenditures	21,979	+ 994	+ 4.7
Per Capita Income	9,457	+ 1,149	+ 13.8
Per Capita Expenditures	8,140	+ 1,460	+ 21.9
For Shelter	1,654	+ 507	+ 44.2
For Fuel & Utilities	527	+ 162	+ 44.4
ELDERLY HOUSEHOLDS[b]			
Household Income	15,836	+ 1,617	+ 11.4
Household Expenditures	15,132	+ 2,725	+ 22.0
Per Capita Income	8,798	+ 434	+ 5.2
Per Capita Expenditures	8,407	+ 1,109	+ 15.2
For Shelter	1,338	+ 281	+ 26.6
For Fuel & Utilities	842	+ 218	+ 34.9
SINGLE-PARENT HOUSEHOLDS[c]			
Household Income	15,385	+ 575	+ 3.9
Household Expenditures	16,648	+ 1,400	+ 9.2
Per Capita Income	5,305	+ 677	+ 14.6
Per Capita Expenditures	5,741	+ 976	+ 20.5
For Shelter	1,239	+ 303	+ 32.4
For Fuel & Utilities	523	+ 208	+ 66.0

[a] Household head or individual aged 25-34.
[b] Household head over age 65.
[c] Household having one parent and children under age 18.

SOURCE: Marc E. Smyrl, Income and Expenditures of Selected Consumer Groups 1973-1985, CRS Report No. 88-318S (Washington, D.C.: Congressional Research Service, The Library of Congress, 1988), Tables VI, VII, X - XIII, pp. CRS-17, CRS-18, CRS-23, CRS-24, CRS-26, & CRS-27 based on Consumer Expenditure Surveys 1972-73, and 1985.

baby-boomers move into middle age, projecting housing demand will be difficult indeed.

Finally, that demographic factors are interrelated is obvious, precisely how they are related less so. Reduced average household size for most segments of the population seems to account for per capita income increases outstripping increases in average household income, despite greatly increased numbers of two-earner households. The usual explanation is that preferences for living alone, for single-parenting, and the like necessarily mean lower average household incomes because of fewer earnings sources. An alternative explanation seems equally plausible, namely, that increased per capita incomes may have enabled many individuals to form smaller households, thereby occasioning increased housing consumption per person. Both relationships undoubtedly exist, but we currently have no way of knowing which predominates. Nevertheless, increasing numbers of small and single-person households which are relatively affluent could increase the demand for smaller, well-appointed homes but it is difficult to say with much certainty.

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1. See, for example, Michael Carliner, "Income distribution and the Housing Industry," Housing Economics, Vol. 37 (December 1988), pp. 4-7.

2. A home sold for $120,000 in 1981 was about equvalent to one selling for $150,000 in 1987. Existing home sales statistics are from Existing Home Sales 1985 (Washington, D.C.: NATIONAL ASSOCIATION OF REALTORS®, 1986), Table 1, p.3 and Table 18, p. 16; and Existing Home Sales, 1988 (Wasington, D.C.: NATIONAL ASSOCIATION OF REALTORS®, forthcoming), Table 5.

3. See Michael Carliner, "Income Distribution and the Housing Industry," Housing Economics, Vol. 37 (December 1988), p. 6.

4. See Mary-Lynne François, "Recent Trends in the Size and Amenities of Newly Constructed Housing Units," Real Estate Quarterly, Vol. 5 (Fall 1986).

5. "Characteristics of Housing Completed in 1988," U.S. Department of Commerce and U.S. Department of Housing and Urban Development, Joint Release (March 2, 1989), Table 1.

6. U.S. Department of commerce and U.S. Department of Housing and Urban Development, Current Housing Reports, H-150-85, American Housing Survey for the United States in 1985, (Washington, D.C.: U.S. Government Printing Office, 1988) I, Table 4-13, p. 148 and Table 3-13, p.88.

7. Analysis in this section draws heavily upon Marc E. Smyrl, Income and Expenditures of Selected consumer Groups 1973-1985, CRS Report 88-318 S, Washington, D.C.: Congressional Research Service, The Library of Congress, 1988.

8. This probably owes in part to average size of elderly households increasing from 1.7 persons in 1973 to 1.8 persons in 1985. See Smyrl, Table XII, p. CRS-26.

9. Part of the explanation may be high underreporting of income for this group, e.g., undeclared child-support payments. See, for example, Smyrl, p. CRS-22. However, that underreporting of income by single-parent households is any greater than for say, the elderly, is largely conjectural.

10. U.S. Department of Commerce and U.S. Department of Housing and Urban Development, Current Housing Reports, H-150-85, American Housing Survey for the United States in 1985, (Washington, D.C.: U.S. Government Printing Office, 1988), Table 403, p. 24.

U.S. ECONOMIC OUTLOOK

DECEMBER 1989

	QUARTERS								YEARS				
	ACTUAL		FORECAST						ACTUAL		FORECAST		
	1989.2	1989.3	89.4	90.1	90.2	90.3	90.4	91.1	1987	1988	1989	1990	1991
AGGREGATE ECONOMY													
Gross National Product (billions of dollars)	5202	5279	5350	5431	5502	5572	5642	5728	4524	4881	5233	5537	5860
% Change	7.1	6.1	5.5	6.2	5.3	5.2	5.1	6.3	6.9	7.9	7.2	5.8	5.8
% Change (w/out inflation)	2.5	2.7	1.7	1.7	1.4	1.5	1.6	2.3	3.7	4.4	3.0	1.8	2.1
Consumer Price Inflation (CPI)	6.4	2.4	4.0	4.2	3.9	4.2	4.1	4.1	3.7	4.1	4.8	4.0	4.1
GNP Inflation (GNP Deflator)	4.6	3.2	4.0	4.5	3.8	3.7	3.6	4.0	3.1	3.3	4.2	3.9	3.7
Unemployment Rate - Civilian	5.3	5.2	5.4	5.5	5.6	5.6	5.7	5.7	6.2	5.5	5.3	5.5	5.6
Civilian Employment-Household Basis (millions)	117.3	117.5	117.7	117.9	118.2	118.4	118.6	118.9	112.4	115.0	117.3	118.3	119.4
Percent change	1.3	0.7	0.5	1.0	0.8	0.8	0.7	0.9	2.6	2.3	2.1	0.8	1.0
Index of Industrial Production	141.8	142.2	141.8	142.1	142.0	142.9	143.6	145.4	129.8	137.2	141.8	143.9	146.8
Manufacturing Capacity Utilization	84.4	83.9	82.8	82.7	82.4	82.6	82.9	83.5	81.0	83.6	84.1	83.6	83.6
Domestic Auto Sales	7.3	7.9	6.2	6.6	6.9	7.0	6.8	7.0	7.1	7.5	7.2	6.8	7.0
Federal Tax Receipts (NIPA) as % of GNP	20.2	19.7	19.7	20.4	20.5	20.5	20.5	20.5	20.1	19.9	20.0	20.5	20.5
Federal Expenditures (NIPA) as % of GNP	23.0	22.6	22.7	22.7	22.6	22.6	22.5	22.7	23.7	22.9	22.9	22.6	22.5
Deficit(NIPA)	-145.4	-149.4	-147.8	-125.3	-118.2	-118.7	-117.3	-125.6	-161.3	-145.9	-150.7	-119.9	-121.8
as % of GNP	-2.8	-2.8	-2.8	-2.3	-2.1	-2.1	-2.1	-2.2	-3.6	-3.0	-2.9	-2.2	-2.1
REAL ESTATE MARKETS													
HOME SALES													
Total Single-family Home Sales (thousands, single-family resales plus 97 percent of single-family starts)	4286	4405	4376	4278	4383	4433	4402	4410	4633	4650	4395	4374	4443
Percent change -- year ago	-8.2	-6.1	-10.2	-5.2	2.3	-0.3	1.0	3.1	-1.6	0.3	-5.5	-0.5	1.6
Existing Single-family Home Sales (thousands)	3323	3443	3385	3245	3339	3404	3389	3408	3512	3594	3407	3345	3450
Percent change -- year ago	-8.8	-6.0	-10.2	-6.7	0.5	-1.1	0.1	5.0	-1.4	2.3	-5.2	-1.8	3.2
Housing Starts (thousands)	1352	1339	1402	1452	1466	1460	1448	1444	1634	1495	1428	1457	1435
Percent change -- year ago	-8.4	-8.8	-9.8	-4.3	8.4	9.1	3.3	-0.5	-9.8	-8.5	-4.5	2.0	-1.5
Single-Family Units	993	992	1022	1065	1076	1061	1044	1034	1156	1088	1019	1061	1024
Percent change -- year ago	-6.2	-6.1	-8.9	-0.4	8.4	6.9	2.1	-3.0	-2.2	-5.9	-6.4	4.2	-3.5
Multi-Family Units	360	346	380	387	390	400	405	411	477	407	384	395	411
2-4 Family Units	53	57	60	61	61	63	64	65	65	59	57	62	65
Percent change -- year ago	-8.1	-5.8	-11.2	2.3	15.4	10.0	5.8	6.2	-23.0	-9.5	-3.4	8.8	4.0
5+ Family Units	307	289	320	326	329	337	341	346	412	348	326	333	347
Percent change -- year ago	-15.0	-17.4	-12.2	-16.1	7.1	16.6	6.7	6.2	-24.4	-15.6	-6.2	2.2	4.0
New Single-farnily Home Sales (thousands)	636	705	635	546	577	610	588	616	673	677	650	580	649
HOME PRICES													
Existing Home Prices - Median $(1000)	93.0	95.3	94.5	96.2	97.9	100.2	99.7	101.4	84.9	88.9	93.5	98.5	103.4
Percent change -- year ago	4.6	5.7	6.6	5.4	5.3	5.2	5.5	5.4	5.8	4.7	5.2	5.3	5.0
New Home Prices - Median $(1000)	119.5	120.1	125.0	123.4	126.3	127.3	128.4	129.7	104.7	113.9	120.7	126.3	133.1
Percent change -- year ago	5.8	4.5	8.9	4.6	5.7	6.0	2.7	5.1	13.5	8.8	6.0	4.7	5.4
FINANCIAL MARKETS													
Long-Term Interest Rates													
30-year Fixed Rate Mortgage (FHA Secondary)	10.5	9.8	9.8	9.6	9.4	9.4	9.5	9.7	10.2	10.5	10.3	9.5	9.8
1-year ARM (effective rate)	9.7	9.7	9.5	9.2	9.0	9.0	9.1	9.2	8.5	8.5	9.7	9.1	9.3
Corporate AAA Bond Rate	9.5	9.0	8.8	8.6	8.4	8.4	8.5	8.5	9.4	9.7	9.2	8.5	8.8
Government Bond Rate	8.7	8.1	7.9	7.7	7.5	7.5	7.6	7.8	8.6	9.0	8.4	7.6	8.0
Short-Term Interest Rates													
Federal Funds Rate	9.7	9.1	8.6	8.3	8.0	8.1	8.2	8.4	6.7	7.6	9.2	8.2	8.4
3-month T-Bill Rate	8.4	7.8	7.6	7.3	7.0	7.2	7.2	7.4	5.8	6.7	8.1	7.2	7.4
Prime Rate	11.4	10.7	10.3	10.0	9.8	9.8	9.7	9.7	8.2	9.3	10.8	9.8	9.8
Discount Rate	7.0	7.0	7.0	7.0	6.7	6.5	6.5	6.5	5.7	6.2	6.9	6.7	6.5
Value of the U.S. Dollar (Trade-Weighted Avg.)	100.4	100.5	97.9	96.2	93.9	91.8	90.4	89.7	96.9	92.8	98.7	93.1	89.9
Percent change	19.7	0.4	-9.8	-6.9	-9.3	-8.5	-5.8	-3.0	-13.6	-4.3	6.4	-5.7	-3.5

Source: Forecast produced using Laurence H. Meyer and Associates' model of the U.S. economy. Assumptions and simulations by Dr. John Tuccillo, Dr Frederick Flick, and Sean Burns.

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